

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF  
COUNTY AUDITOR  
LAPORTE COUNTY, INDIANA  
September 19, 2011 to December 31, 2012



**FILED**  
02/21/2014



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#### COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Craig Hinchman JoEileen Winski	01-01-09 to 12-31-12 01-01-13 to 12-31-16
President of the County Council	Matthew Bernacchi Mark Yagelski	01-01-12 to 12-31-12 01-01-13 to 12-31-13
President of the Board of County Commissioners	Kenneth Layton Willie Milsap	01-01-12 to 12-31-12 01-01-13 to 12-31-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF LAPORTE COUNTY

We have audited the records of the County Auditor for the period from September 19, 2011 to December 31, 2012, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of LaPorte County for the year 2012.

STATE BOARD OF ACCOUNTS

November 14, 2013

COUNTY AUDITOR  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the County related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Operation of Controls: For control activities to be effective, they need to be established and then timely implemented. These control activities should be selected and developed at various levels of the County to reduce risks to the achievement of financial reporting objectives. The County has not effectively managed a control environment that assures financial transactions are being timely and properly recorded. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Monitoring of Controls: Effective internal control over financial reporting requires the County Board of Commissioners to monitor and assess the quality of the County's system of internal control. The County Board of Commissioners has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the County has no process to identify or communicate corrective actions to improve controls.
3. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the County's audited financial statement and then determining how those identified risks should be managed. The County has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.

Six transactions were found to be either not recorded or misrecorded during 2012. Each of these transactions were in excess of \$1,400,000. Some of these errors were not detected by the County until June 2013.

The County Treasurer completed a reconciliation of some bank accounts to the Treasurer's Cash Book as of December 31, 2012, in June 2013. This reconciliation contained numerous reconciling items, some unidentified, totaling \$34,327,611, uncorrected to the Treasurer's Cash Book from 2009, 2010, 2011, and 2012. As of November 14, 2013, no reconciliation of all bank accounts to the entire Auditor's Funds Ledger has been completed by the County.

Due to the deficiencies cited above, that we consider to be material weaknesses, and because we were not able to apply other auditing procedures to satisfy ourselves as to whether the financial statement is fairly stated, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

COUNTY AUDITOR  
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Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transaction, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

***INTERNAL CONTROLS OVER PREPARATION OF THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The County did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The County should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: expenditures of \$803,048 from federal awards were not reported; expenditures of \$762,872 were reported, but were not from federal awards; distinction between a grant passed-through another entity and a direct grant was incorrect or absent; and grants were included without CFDA numbers. Audit adjustments were proposed, accepted by the County, and made to the SEFA.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

***CONDITION OF RECORDS***

The following are some of the deficiencies relating to the recordkeeping that illustrate the County did not properly maintain its Funds Ledger during the audit period. Because of the significance of these deficiencies and because we have not been able to obtain other sufficient appropriate audit evidence to provide a basis for an audit opinion, we do not express an opinion on the financial statement of the County.

A \$220,270 check was disbursed from the Commercial Vehicle Excise Fund (CVET)-6023 dated August 9, 2012, as settlement of CVET due to 9 different County funds. This check was not receipted to these 9 different funds until June 10, 2013.

COUNTY AUDITOR  
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\$1,482,148 was disbursed from the Settlement Fund-6000 dated December 7, 2012, as settlement of Property Tax due to 7 different County funds. All of this money was receipted to the General Fund rather than the appropriate various funds. This error was corrected in 2013 by transferring money to the appropriate fund.

At June 30, 2013, the Excess (Surplus) Tax Fund had a negative cash balance of \$4,910,826. This represents property tax refunds of overpayments made to taxpayers. Prior to the refunds being paid to taxpayers funds should be receipted into this fund from the Treasurer to cover the disbursement of the refunds. This correction has not been made in 2013.

A \$5,700,000 disbursement made in error from the Major Moves Fund during 2012 was not discovered and corrected until 2013.

Electronic fund transfers (EFT) of the December 2012 excise tax, some Medicare payments for the EMS Department, and two grants received from the State of Indiana, totaling \$503,331 were not posted to the Treasurer's Cash Book nor the Auditor's Funds Ledger until 2013.

During 2012, \$23,623,490 of Major Moves Fund investment transactions were posted as Transfers In on the Auditor's Funds Ledger. In compilation of the County Annual Report these transactions were included in the December 31, 2012, cash and investments balance.

Subsequent to the submission of the County Annual Report the cash balances of 15 funds were adjusted by \$1,349,673.13. Included within this is a \$1,482,146.86 change in the cash and investment balance of the General Fund.

The County Annual Report omitted 14 funds that are listed on the Auditor's Funds Ledger with a combined December 31, 2012, cash and investment balance of (\$120,279.82).

From September 2011 through December 2012, \$153,002.46 was erroneously receipted or not receipted at all. This went undetected until January 2013. (See Audit Result and Comment titled Malfeasance, Misfeasance, or Nonfeasance)

All of the errors listed above affect the December 31, 2012 cash and investment balance of various County funds as reported in the audited financial statements.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)



COUNTY AUDITOR  
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AUDIT RESULTS AND COMMENTS  
(Continued)

**CREDIT CARDS**

Many LaPorte County departments are using credit cards, gas cards, and department store charge cards/accounts to purchase items without an approved credit card policy. Most of the purchases were made before purchase orders were prepared and approved. Some credit card purchases were for equipment and in one department were used to pay monthly cell phone bills for the entire department. It was also noted that in some instances there were late fee and interest charges paid. Also, some credit cards had annual fee charges.

County officials could not provide a listing of who has credit cards, gas cards, and department store charge cards/accounts. The County Auditor is currently trying to obtain this information from all county departments.

The prior two Reports B39211 and B40912 included a comment concerning the County not having a credit card policy.

The Indiana State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

COUNTY AUDITOR  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Any penalties, interest, or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

**OVERDRAWN CASH BALANCES**

The financial statements presented in this report included the following funds with overdrawn cash balances at December 31, 2012:

<u>Fund</u>	<u>Amount Overdrawn</u>
General	\$ 7,942,230
Economic Development Fund	354,146
E-911	503,937
Solid Waste User Fees	800,001
Excess Tax	2,470,738
Lp. Co. Pioneer Cemetery	25,997
Jail Drug Treatment Program	2,314
Payroll	7,730
Settlement	2,162,178
Regional Planner	123,208

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

**INTERNAL CONTROLS - EXCESS (SURPLUS) TAX**

The Excess (Surplus) Tax Fund accumulates property tax money received that was in excess of amounts owed from tax payers. This money is transferred from the Treasurer to the Auditor and held in a fund on the Auditor's records until refunded to the tax payer. At December 31, 2012, and June 30, 2013, the cash balances of the Excess (Surplus) Tax Fund - 1201, were negative \$2,470,738, and \$4,910,826, respectively. The Treasurer has not transferred to the Auditor these overpayments to be recorded in the Excess (Surplus) Tax Fund.

Check 183328 for \$1,039.66 was issued on August 10, 2012, in error as a refund. This check was to be voided but was not properly recorded in the Fund. A correction for this error has not been recorded. Had the control been posted currently, and a reconciliation performed between the Treasurers subsidiary ledger of Excess (Surplus) Tax payments received and the Auditors control ledger, Fund 1201, this missposting would have been caught, corrected, and future misspostings could have been avoided.

Indiana Code 6-1.1-26-6(a) states in part:

"Notwithstanding the other provisions of this chapter, each county treasurer shall place the portion of a tax or special assessment payment which exceeds the amount actually due, as shown by the tax duplicate or special assessment records, in a special fund to be known as the 'surplus tax fund.'"

COUNTY AUDITOR  
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At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Auditors of Indiana, Chapter 14) (Accounting and Uniform Compliance Guidelines Manual for Treasurers of Indiana, Chapter 10)

***INTERNAL CONTROLS - QUIETUS***

Internal controls over the receipting, recording, and accounting for the collection of monies were insufficient.

The LaPorte County Auditor's Office receives checks and cash from all departments of the County. This money is held in the Auditor's Office until Auditor's Office employees write the quietus. We found instances of five days from the receipt of money from departments until the recording of the money on a quietus by the Auditor's Office. Employees of the Auditor's Office then take the money to the Treasurer for deposit.

Indiana Code 5-13-6-1 requires all public funds shall be deposited not later than the business day following the receipt of funds on business days of the depository.

All money, except for taxes and special assessments paid direct to the treasurer, shall be receipted into the records by the use of the four-part Form 20-21, "Combination Quietus, Application to Pay, Treasurer's Receipt and Auditor's Copy." This form, which serves as the media for posting to the fund ledger accounts, is sometimes referred to in this manual as an "application to pay and quietus," as a "quietus" and as a "receipt."

The form is designed to meet the requirements of Indiana Code 36-2-9-12 and Indiana Code 6-2-10-10 and to insure proper accountability for all such receipts. The following steps should be followed:

1. The county auditor prepares the four-part form, to show the date, fund or funds to be credited, amount, the person applying to pay the money into the county treasury, and in the space "on account of" shall show the source of the payment and the specific account number or numbers to be credited.
2. The auditor hands to such person the "Application to Pay" and "Receipt" copies and the person makes payment direct to the treasurer, receiving from the treasurer the signed receipt copy. The treasurer retains the application to pay for the records of that office.
3. The person returns the receipt copy to the auditor who thereupon issues the "Quietus" to such person to complete the transaction. The receipt copy is retained for the auditor's records.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

COUNTY AUDITOR  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS  
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***MALFEASANCE, MISFEASANCE, OR NONFEASANCE***

For the period September 19, 2011 through December 28, 2012, there were 150 deposits made that the cash deposited was less than the cash receipted. In all of these instances unreceipted or mis-recorded checks were substituted into the day's collections and cash received from departments of the County was removed. The total amount of cash removed from collections is \$153,002.46.

We found instances where cash receipted was not deposited intact. Checks received by various County departments were held and not receipted. The checks were used to replace cash collected from other departments. For example some departments would bring checks to the Auditor's Office without a collection report. These checks were never receipted into their fund. The Health Department would bring to the Auditor's Office cash and checks and the checks held from the other departments were used to replace the cash brought to the Auditor's Office by the Health Department. This in turn would make the deposit prepared for the Treasurer's Office match in total with the receipts written, but not match cash and checks individually.

Mary Ray, former Deputy Auditor, was the primary employee of the Auditor's Office that was charged with the responsibility of receipting money received by the County and assuring the funds received were properly recorded on the Funds Ledger of the County. Mary Ray, former Deputy Auditor, was also the primary employee that, after money was receipted, would take all cash and checks and copies of receipts to the Treasurer's Office for deposit.

The following were methods used to conceal the removal of cash from the Auditor's Office collections. Examples include: some cash and checks collected by the Auditor's Office were not receipted at all, checks to be voided, some issued by the County in error and others returned from vendors, were not voided but instead used to replace cash, receipts were written to departments but not posted to the records, receipt amounts were lowered to decrease the amount posted to the records, checks were receipted but held and turned over to the Treasurer at a later date, funds deposited through electronic funds transfer were not receipted to the records.

The table below details by day the amount of cash deposited that was less than the amount receipted:

<u>Quietus Date</u>	<u>Cash Receipted</u>	<u>Cash Deposited</u>	<u>Difference</u>
09-19-11	\$ 3,191.00	\$ 2,951.70	\$ 239.30
09-22-11	3,689.00	3,568.55	120.45
09-28-11	2,162.75	1,882.55	280.20
09-30-11	1,321.00	1,253.65	67.35
10-06-11	5,844.00	5,461.00	383.00
10-18-11	3,072.00	2,934.15	137.85
10-21-11	2,687.01	2,564.61	122.40
11-03-11	2,380.30	2,314.45	65.85
11-14-11	3,540.00	3,010.00	530.00
11-17-11	4,327.00	1,374.07	2,952.93
11-21-11	1,130.00	710.10	419.90
11-23-11	2,133.00	2,002.50	130.50

COUNTY AUDITOR  
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AUDIT RESULTS AND COMMENTS  
(Continued)

<u>Quietus Date</u>	<u>Cash Receipted</u>	<u>Cash Deposited</u>	<u>Difference</u>
11-30-11	872.28	602.17	270.11
12-01-11	1,082.00	292.37	789.63
12-07-11	3,188.74	2,547.20	641.54
12-08-11	3,671.01	1,975.71	1,695.30
12-13-11	1,337.39	924.63	412.76
12-15-11	2,718.00	1,688.13	1,029.87
12-16-11	1,098.00	1,038.25	59.75
12-21-11	3,133.30	1,832.07	1,301.23
12-22-11	3,630.00	2,701.00	929.00
12-29-11	2,448.00	1,055.00	1,393.00
01-04-12	3,759.22	2,759.23	999.99
01-11-12	4,834.50	3,566.74	1,267.76
01-13-12	1,040.00	734.00	306.00
01-17-12	2,202.00	1,245.91	956.09
01-20-12	2,184.00	950.61	1,233.39
01-24-12	1,020.00	858.85	161.15
01-30-12	3,325.00	2,213.86	1,111.14
02-02-12	1,373.01	1,222.75	150.26
02-03-12	3,865.00	2,850.33	1,014.67
02-14-12	3,660.00	2,180.44	1,479.56
02-16-12	891.01	464.18	426.83
02-21-12	1,703.00	763.00	940.00
02-22-12	1,082.85	659.59	423.26
02-24-12	1,729.00	807.00	922.00
02-28-12	1,330.93	471.33	859.60
03-02-12	3,773.00	1,629.98	2,143.02
03-07-12	1,591.00	513.00	1,078.00
03-09-12	2,302.20	850.44	1,451.76
03-13-12	2,080.15	811.17	1,268.98
03-16-12	1,857.00	974.00	883.00
03-19-12	122.00	117.85	4.15
03-28-12	5,058.00	2,793.74	2,264.26
04-03-12	4,076.24	1,715.86	2,360.38
04-05-12	1,843.40	948.40	895.00
04-10-12	1,739.00	654.28	1,084.72
04-12-12	1,345.69	345.68	1,000.01
04-13-12	1,529.00	742.27	786.73
04-17-12	981.00	544.72	436.28
04-19-12	983.00	739.69	243.31
04-24-12	1,372.00	1,000.59	371.41

COUNTY AUDITOR  
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AUDIT RESULTS AND COMMENTS  
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<u>Quietus Date</u>	<u>Cash Receipted</u>	<u>Cash Deposited</u>	<u>Difference</u>
04-26-12	1,413.00	1,306.65	106.35
04-30-12	9,863.29	7,509.00	2,354.29
05-02-12	2,535.37	1,670.37	865.00
05-04-12	1,555.00	728.00	827.00
05-09-12	8,477.93	6,127.10	2,350.83
05-10-12	1,446.70	699.89	746.81
05-15-12	1,367.00	486.00	881.00
05-17-12	5,887.00	4,550.25	1,336.75
05-22-12	341.00	166.86	174.14
05-24-12	5,632.73	3,162.16	2,470.57
05-25-12	877.20	581.13	296.07
05-29-12	14,305.14	9,719.18	4,585.96
05-31-12	1,987.78	1,026.78	961.00
06-01-12	2,215.00	1,276.00	939.00
06-05-12	9,839.80	6,051.00	3,788.80
06-06-12	1,909.03	1,307.03	602.00
06-07-12	1,328.10	401.10	927.00
06-11-12	8,890.20	6,841.11	2,049.09
06-13-12	1,722.00	1,044.43	677.57
06-14-12	1,115.39	615.91	499.48
06-15-12	747.98	249.48	498.50
06-25-12	6,987.69	5,693.64	1,294.05
06-26-12	4,204.02	2,656.26	1,547.76
06-29-12	5,317.51	4,302.02	1,015.49
07-03-12	6,360.54	4,423.42	1,937.12
07-05-12	2,541.05	2,119.70	421.35
07-06-12	1,311.00	1,207.47	103.53
07-10-12	12,421.77	10,338.86	2,082.91
07-12-12	2,523.80	1,284.75	1,239.05
07-17-12	2,427.00	1,237.08	1,189.92
07-19-12	218.63	120.78	97.85
07-20-12	2,679.00	1,177.38	1,501.62
07-23-12	773.01	500.83	272.18
07-25-12	2,347.00	913.55	1,433.45
07-26-12	489.47	288.54	200.93
07-27-12	992.30	492.46	499.84
07-30-12	3,201.00	2,025.85	1,175.15
08-01-12	2,487.75	1,244.80	1,242.95
08-06-12	791.00	496.00	295.00
08-07-12	192.20	92.20	100.00

COUNTY AUDITOR  
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<u>Quietus Date</u>	<u>Cash Receipted</u>	<u>Cash Deposited</u>	<u>Difference</u>
08-08-12	2,362.00	1,074.33	1,287.67
08-09-12	2,177.38	855.18	1,322.20
08-10-12	4,684.00	1,745.55	2,938.45
08-15-12	2,703.01	1,251.96	1,451.05
08-17-12	2,316.38	1,109.41	1,206.97
08-21-12	688.00	463.50	224.50
08-23-12	1,550.50	643.82	906.68
08-24-12	955.90	215.96	739.94
08-27-12	2,040.00	554.84	1,485.16
08-28-12	1,372.00	566.40	805.60
08-31-12	1,608.00	619.06	988.94
09-04-12	3,057.00	1,161.18	1,895.82
09-05-12	1,635.23	737.36	897.87
09-07-12	1,071.00	549.19	521.81
09-10-12	1,060.00	545.57	514.43
09-11-12	541.00	164.82	376.18
09-12-12	505.00	-	505.00
09-14-12	3,225.54	1,345.94	1,879.60
09-19-12	3,146.00	1,221.45	1,924.55
09-20-12	1,452.00	604.14	847.86
09-21-12	1,679.15	779.15	900.00
09-24-12	8,001.91	5,521.91	2,480.00
09-26-12	880.15	-	880.15
09-28-12	2,037.00	358.82	1,678.18
10-01-12	2,867.56	1,256.79	1,610.77
10-02-12	215.00	65.00	150.00
10-03-12	2,936.00	1,294.00	1,642.00
10-05-12	2,660.92	1,035.93	1,624.99
10-11-12	1,660.70	540.74	1,119.96
10-12-12	653.70	98.70	555.00
10-17-12	4,775.18	2,011.28	2,763.90
10-18-12	1,049.00	536.00	513.00
10-19-12	820.00	317.00	503.00
10-23-12	956.00	469.00	487.00
10-25-12	53.38	3.38	50.00
10-26-12	4,703.30	2,509.69	2,193.61
10-31-12	1,996.00	1,356.85	639.15
11-01-12	2,521.50	1,447.32	1,074.18
11-05-12	511.00	211.45	299.55

COUNTY AUDITOR  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

<u>Quietus Date</u>	<u>Cash Receipted</u>	<u>Cash Deposited</u>	<u>Difference</u>
11-08-12	1,919.59	642.74	1,276.85
11-09-12	2,087.00	942.39	1,144.61
11-13-12	672.20	541.00	131.20
11-16-12	2,056.70	515.70	1,541.00
11-19-12	2,118.00	926.75	1,191.25
11-21-12	3,456.78	1,051.12	2,405.66
11-27-12	1,197.00	604.22	592.78
11-30-12	1,203.00	433.95	769.05
12-03-12	5,216.07	2,135.37	3,080.70
12-05-12	754.50	381.58	372.92
12-07-12	1,970.80	764.98	1,205.82
12-10-12	515.20	335.20	180.00
12-13-12	2,671.63	1,017.95	1,653.68
12-14-12	1,571.00	946.92	624.08
12-18-12	3,178.04	1,127.33	2,050.71
12-20-12	1,843.00	783.00	1,060.00
12-26-12	881.00	210.96	670.04
12-27-12	20.00	-	20.00
12-28-12	<u>1,234.74</u>	<u>169.34</u>	<u>1,065.40</u>
Totals	<u>\$ 378,724.00</u>	<u>\$ 225,721.54</u>	<u>\$ 153,002.46</u>

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

Based on our examination, the County should be reimbursed \$153,002.46 for the cash removed from collections. We are requesting reimbursement from Mary Ray, former Deputy Auditor. (See Summary of Charges, page 21)

**AUDIT COSTS – MISSING FUNDS**

The State of Indiana incurred additional audit costs of \$45,815.25 related to the investigation of the cash removed from collections totaling \$153,002.46 resulting in a total charge of \$198,817.71. The State of Indiana is requesting reimbursement from Mary Ray, former Deputy Auditor, of the additional audit costs incurred.

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)



COUNTY AUDITOR  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Based on our examination, the County should be reimbursed \$45,815.25 for additional audit costs incurred as a result of this investigation. We are requesting reimbursement from Mary Ray, former Deputy Auditor. (See Summary of Charges, page 21)

**OFFICIAL BOND**

Craig Hinchman, former Auditor, did not obtain an individual surety bond.

LaPorte County has insurance coverage for employee theft, forgery, and computer fraud which covers the time period discussed in this report. This insurance policy is with Chubb Group of Insurance Companies and provides \$500,000 of coverage for employee theft, forgery, and computer fraud.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following city, town, county, or township officers and employees shall file an individual surety bond:

- (1) City judges, controllers, clerks, and clerk-treasurers.
- (2) Town judges and clerk-treasurers.
- (3) Auditors, treasurers, recorders, surveyors, sheriffs, coroners, assessors, and clerks.
- (4) Township trustees.
- (5) Those employees directed to file an individual bond by the fiscal body of a city, town, or county.
- (6) Township assessors (if any).

(b) The fiscal body of a city, town, county, or township may by ordinance authorize the purchase of a blanket bond or a crime insurance policy endorsed to include faithful performance to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit, including those officers described in subsection (a).

(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

- (1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee. County auditors shall file bonds in amounts of not less than thirty thousand dollars (\$30,000), as fixed by the fiscal body of the county. The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000).

COUNTY AUDITOR  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

(d) Except as provided in subsection (j), a controller of a solid waste management district established under IC 13-21 or IC 13-9.5 (before its repeal) shall file an individual surety bond in an amount:

- (1) fixed by the board of directors of the solid waste management district; and
- (2) that is at least thirty thousand dollars (\$30,000).

(e) Except as provided under subsection (d), a person who is required to file an individual surety bond by the board of directors of a solid waste management district established under IC 13-21 or IC 13-9.5 (before its repeal) shall file a bond in an amount fixed by the board of directors."

COUNTY AUDITOR  
LAPORTE COUNTY  
EXIT CONFERENCE

The contents of this report regarding the missing funds of the Auditor's Office were mailed on October 2, 2013, to Mary Ray, former Deputy Auditor, and her attorney Kurt Earnst. No response was received in return.

The contents of this report were discussed on October 2, 2013, with Craig Hinchman, former Auditor. The Official Response has been made a part of this report and may be found on pages 18 through 20.

The contents of this report were discussed on October 10, 2013, with JoEileen Winski, Auditor, and Andrea Smith, Deputy Auditor. The officials concurred with our audit findings.

The contents of this report were discussed on November 12, 2013, with Earl Cunningham and Terry Garner, Council members.

The contents of this report were discussed on November 14, 2013, with Willie Milsap, President of the Board of County Commissioners; Dave Decker, Commissioner; and Shaw Friedman, County Attorney.

Answers to the 2012 Audit Report  
2012 was the final year of Craig Hinchman term of office as La Porte County Auditor

Credit Cards

The County Commissioners handled some of the credit cards and establish a loose policy on these cards. I told the Commissioners that there were good policies out there that other counties are using. I could get a copy thru the Auditor's Association. If you make too many waves they remember your office at budget time. The Auditor does not have the power to force the Commissioners or Council to follow the rules. The department heads and elected officials don't always inform the Auditor's office of all the things they are doing. All elected officials and department heads know the rules set by the Commissioners. Normally if you needed a credit card you went to the Commissioners and then if they felt you needed it, they would give you one to use for the conference you were attending. It's not until something happens or the SBOA finds something that should not be done, during their audit report that the Auditor's Department is made aware of it.

Condition of Records

If La Porte County did not get three years of taxes completed in 2012 the State of Indiana was going to fine the county one million dollars. So the focus of my department along with other departments was to comply with this order. Some of the day to day operations suffered. This would not have happened if we were not trying to make the deadline.

Penalties, Interest and Other Charges

Again the focus of day to day operations was to get out three years of taxes. Normally with the day to day operations, you can get out one year of property taxes. We had to get out three years and there were lots of problems involved in getting this data done.

Overdrawn Cash Balances

We try and keep any eye on the cash balances, and inform the departments that they are getting close to being over budget. Each department knows what their budget is and should stay within the guidelines of that budget. Each department has people in their department that do bookkeeping there is no excuse for them to be overdrawn. They also know that they can go before the council and ask for additional appropriations and know that the council will grant them.

#### Receipt issuance for EFT'S

Again the focus of day to day operations was to get out three years of taxes. Normally with the day to day operations, you can get out one year of property taxes. We had to get out three years and there were lots of problems involved in getting this data done.

#### Internal Controls-Quietus

Again the focus of day to day operations was to get out three years of taxes. Our department worked short handed. There should be at least two more employees to handle the work load. The council had cut one and half employees for the auditor's office which the previous auditor had. The state mandates new rules and laws and expects them done, but the council does not always have the money to supply the employees. My department did the best we could with the staff and work load we had. Budget cuts hurt the operation of county government.

#### Official Bond

We believed the Commissioners handled bonding county employees. If I was informed that it was my job, I would have gotten bonded. The Commissioners were in charge of getting insurance policies for the county.

#### Malfeasance, Misfeasance or Nonfeasance

I can not explain how cash was deposited but not receipted. I do not believe that Mary Ray would take this money. I have known Mary Ray for over thirty years. She was a very good employee. Mary Ray is a very smart person, and would know that you could not tamper with the deposits and not get caught. Plus she was my friend and would realize that the missing funds would put a black eye on my administration.

#### Internal Controls Over Financial Transactions And Reporting

I agree with your findings. But people resist change; this is how we have always done this. In county government this is also true. Changes are needed and will be forced upon the departments, but in time things most likely will go back to the way we always done business. Plus there is politics involved and thing will be over looked because of it. I reported to the SBOA that the Treasures books did not balance for three years. They did not seem to be overly concerned. I felt an outside accounting firm should be brought in to find the problem. But that would cost major money, so nothing was ever done to my knowledge. The Auditor does not have the power or staff to make sure that all these items are done.

## Internal Control Over Preparation Of The Schedule Of Expenditures Of Federal Awards

These recommendations are wonderful but again the Auditor does not have the power or staff to see these items are followed. This is not a perfect world and people do not always work together for the common good. The various departments would get grants and monies; but the Auditor's office did not know why or how to report it. The departments would resist giving us copies of the grants so we would know what was in the grant and how we were to handle the monies.

I had a wonderful staff and we worked hard to see that things were done right. Our audits for three years were considered good. We made improvements over the way things were done by the previous Auditor. And I'm sure that with this audit there will be improvements made by current Auditor. When I took office no Auditor in the history of the State of Indiana, found there office in the turmoil I did. We were four years behind in collecting tax monies and had major assessment problems. The Department of Local Government and Finance created these problems because they did not follow there own rules. During my term of office I did not get any co-operation from this agency. This agencies; actions hurt La Porte County and cost the people and local government units millions of dollars.



Craig Hinchman  
La Porte County Auditor  
2012

COUNTY AUDITOR  
LAPORTE COUNTY  
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Mary Ray, former Deputy Auditor:			
Malfeasance, Misfeasance, Nonfeasance,			
pages 10 through 14	\$ 153,002.46	\$ -	\$ 153,002.46
Audit Costs - Missing Funds,			
page 14 through 15	<u>45,815.25</u>	<u>-</u>	<u>45,815.25</u>
Totals	<u>\$ 198,817.71</u>	<u>\$ -</u>	<u>\$ 198,817.71</u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

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AFFIDAVIT

STATE OF INDIANA )  
St Joseph COUNTY)

We, John W. Pajakowski and Sarah Nagy, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the County Auditor, LaPorte County, Indiana, for the period from September 19, 2011 to December 31, 2012, is true and correct to the best of our knowledge and belief.

John W. Pajakowski  
Sarah Nagy  
Field Examiners

Subscribed and sworn to before me this 3rd day of February, 2014

Louaine R. Cooper  
Notary Public

My Commission Expires: 9-21-2016  
County of Residence: St Joseph